CANADA MORTGAGE AND HOUSING CORPORATION

HOUSING MARKET OUTLOOK

Ottawa

Date Released: Fall 2006

New Home Market

Home Starts Plateauing

Multiple family housing will support the market in 2006 and housing starts will reach 5,700 units. A balanced resale market and rising prices suggest that starts will moderate next year to 5,200 dwellings. More modestly-priced multi-family housing will grab a bigger share of the market from single detached homes.

The current year got off to an impressive start for single-detached home building. However, the average price of properties, which will reach $370,000, curbed the enthusiasm of buyers, who purchased fewer houses. This type of construction therefore slowed over the course of the year, which will cause the annual volume to decline somewhat. The trend will continue next year, as well, with a slightly greater decrease in single-detached housing activity. In addition, with a population compris-

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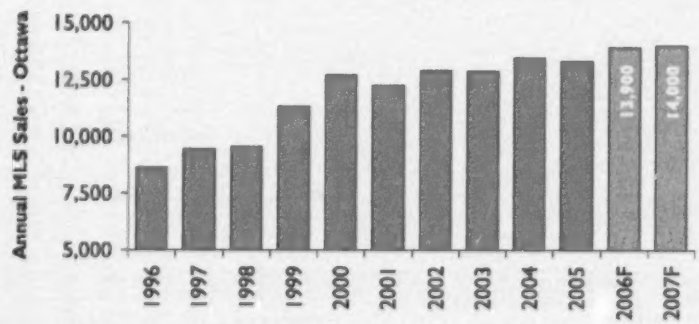
Figure 1

Strong Sales Despite Reaching a Plateau



Source: CREA, Ottawa Real Estate Board
(F) Forecast by CMHC

Canada

60 YEARS ANS

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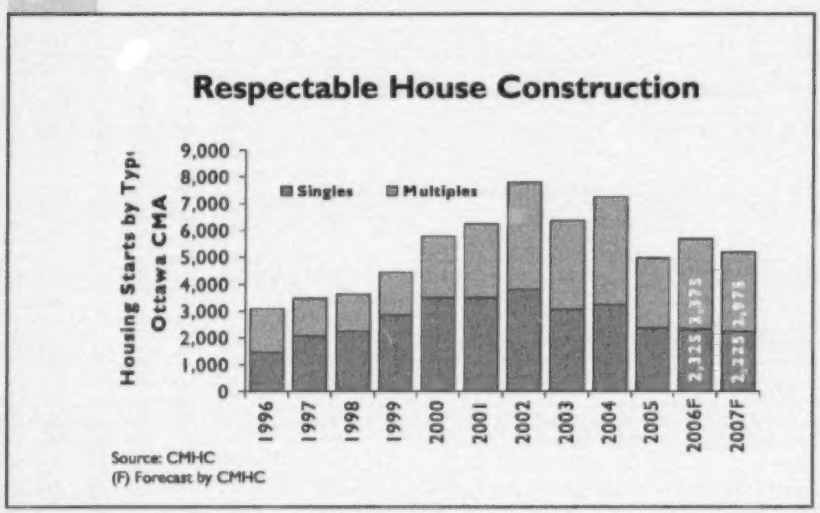
Figure 2



ing more and more single parents and couples with no children, demand for more spacious properties will weaken. Rising unsold inventories of single detached homes are also pointing to a slower pace of starts. The current year will therefore end with 2,325 new single-detached dwellings, down by 1.1 per cent. This movement will also continue throughout next year, when about 100 fewer single starts are anticipated.

Multi-family home construction, however, will increase its market share. Consumers substituting out of higher price housing into a lower-priced denser forms of housing, combined with industry attempts to intensify, point to strong multiple home starts. Furthermore, demographic trends suggest that with smaller households and an aging population wanting to move closer to services, housing activity will be driven by higher-density construction. Townhomes have become more popular in recent years in the Ottawa area. Dwellings of this type have won over many buyers, as they offer a good compromise between single-detached homes and apartments, being less expensive than the former but more spacious than the latter. The number of townhomes built in 2006 will reach 1,875 units before peaking at 1,900 units next year. Apartments, for their part, will reach a high of 1,125 units this year, with several major projects getting under way. Activity will ease in this housing segment in 2007, when 725 units are expected. Vacancy rates above historical average will further dampen apartment construction.

Resale Market

Modest Growth Ahead

Home sales will remain at historical highs this year and next. Multiple Listing Service (MLS)® sales for 2006 overall will reach 13,900 units, a record for the Ottawa area. Looking ahead, strong employment growth and continued low interest rates will help keep home sales strong and boost the resale market to achieve an all-time high of 14,000 transactions in 2007. However, rising real carrying costs will restrain the growth of resale volumes.

Many households, who have the means, have and will continue to purchase homes. Low mortgage

Figure 3

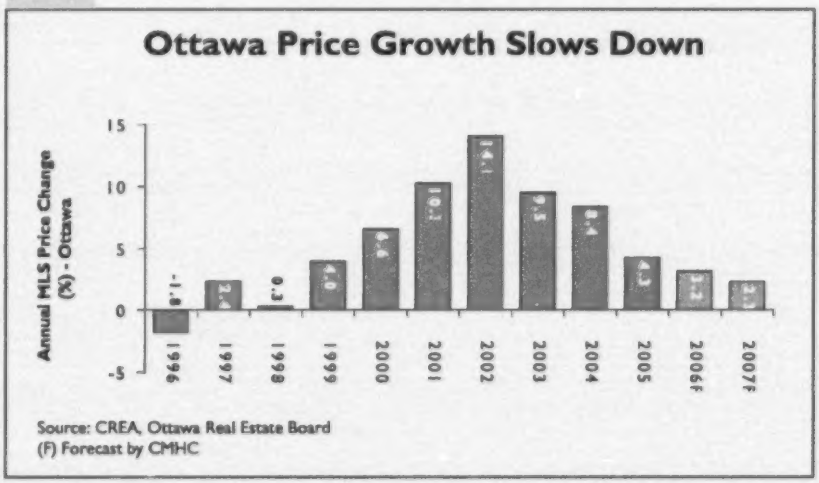
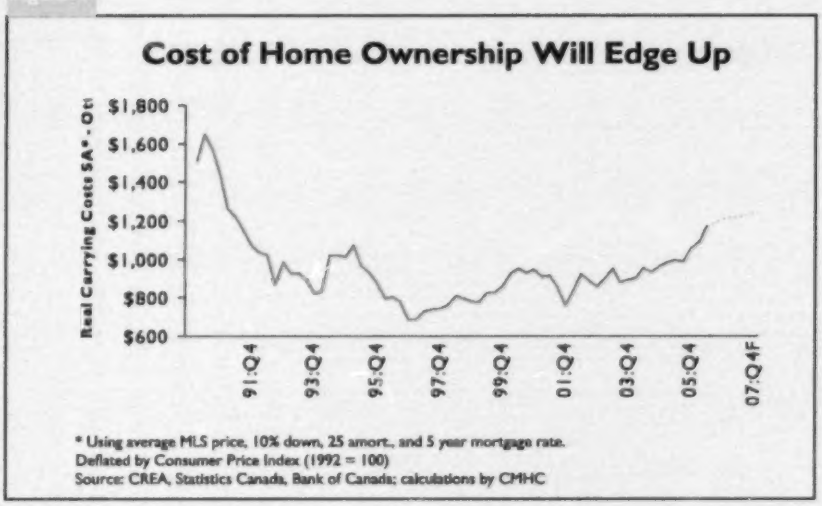


Figure 4



carrying costs (calculated using the average MLS® price, $ of 2004, a 10 per cent down payment, a five-year mortgage rate and a 25-year amortization period) are prompting many households to turn to homeownership. In fact, the average monthly mortgage payment, adjusted for inflation, is approximately $1,500. This monthly mortgage payment pales in comparison to the average monthly carrying cost of $2,000 registered in the early 1990s.

Strong home sales are keeping pace with more abundant supply of properties with "For Sale" signs, insuring the market remains close to the top of a balanced market range. The seasonally adjusted sales-to-new listings ratio will reach 57 per cent this year and 55 percent in 2007, slightly above the balanced market range.

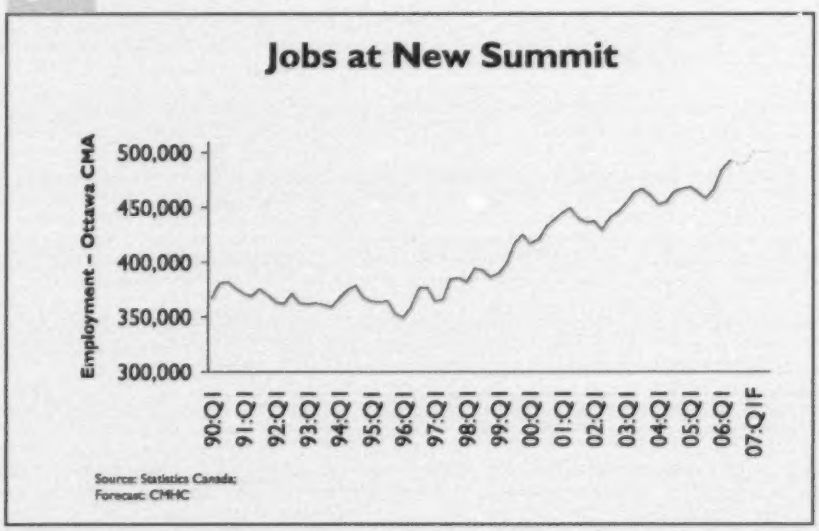
It is therefore demand, supported by a vigorous job market and high consumer confidence, which will stimulate sales, despite steadily rising prices. The average MLS® price of properties will reach $256,000 for 2006, up by 3.2 per cent over last year. This increase is moving progressively closer to the general rate of inflation, after many years of more substantial growth. The average MLS® price will reach $262,000 in 2007, for an increase of 2.3 per cent over the 2006 level. Prices are therefore expected to keep rising, but at a slower pace than in recent years. This more moderate price growth, despite a strong demand, is due to the fact that there are more properties listed for sale on the market. More choice on the market means less competition among buyers and, by the same token, more moderate price growth.

Economic Overview

Job Growth Will Slow

Employment levels will remain high, but job growth will slow through 2007. Overall, job growth will increase by 5.6 per cent in 2006. Employment growth will slow in 2007, growing at a rate of 2.2 per cent. The vigorous local economy brought total jobs in the area to a record level this year. It is anticipated that there will be a total of 490,000 employed persons at the end of the year and this number will pass the half million mark in 2007.

Figure 5



The prospects are good for the technology sector, with investments projected to maintain the pace in a world of ever-growing competitiveness.

As well, several job sites are under way or about to start in the area. A major project that will soon begin is the extension of the north-south line of Ottawa's light rail service, the O-Train. This will be one of the largest construction projects that the area will have seen in recent years. Other non-residential job sites will also be expanding the pool of workers in the area. There are three office buildings currently under construction and several expansion projects under way in a few hospitals. Employment in the construction sector will therefore be on the rise for 2006 before registering a more significant jump next year.

Considering the challenge posed by the increasing value of the Canadian dollar, the manufacturing sector can be affected in some industries. However, the global performance of this sector will likely be steady with job growth just below the average. The service sector, for its part, will do well in 2006 and 2007 given healthy consumer spending.

Net Migration Remains Positive

According to the latest data for the National Capital Region, net migration remains positive and should reach 800 by the end of the year. It's one of the weakest performances of the region for years. For 2007, it should pick up to 1,100 net in-migrants. Migration is only positive for the international component. However, interprovincial and intraprovincial migrations are on a decline, as Ottawa is losing some of its population to other municipalities in Ontario and other provinces in Canada. It is interesting to note that the situation differs depending on what side of the Ottawa River you are on. While Ottawa has negative net interprovincial migration, it is just the opposite in Gatineau, where net interprovincial migration is positive and keeps rising year after year.

Home prices are the magnet. In fact, a comparison between the average home prices in Gatineau and Ottawa reveals a difference of about $90,000. For many households, this price gap is considerable and wins out over the income tax advantages available in Ontario, so they opt for the Quebec side when the time comes to decide on a place of residence.

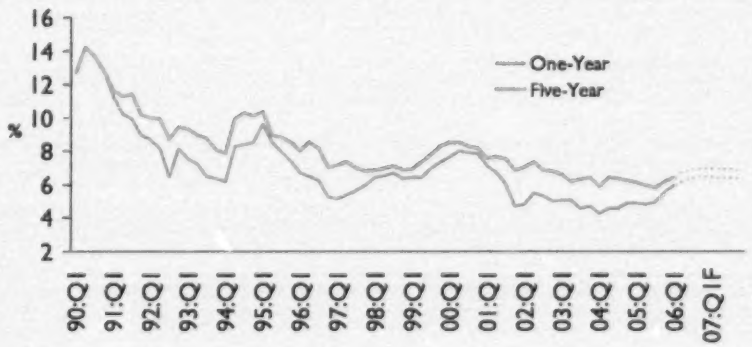
Mortgage Rates Have Peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the US dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Figure 6

Mortgage Rates To Remains Affordable



Source: Bank of Canada; Forecast: CMHC

Housing Market Outlook Summary
Ottawa CMA Fall 2006

	2004	2005	2006F	% chg.	2007F	% chg.
RESALE MARKET						
MLS Sales	13,457	13,300	13,900	4.5	14,000	0.7
MLS Average Price, all units	$238,152	$248,358	$256,000	3.2	$262,000	2.3
MLS Average Price, Freehold Res.	$251,459	$259,817	$268,000	3.3	$273,500	2.1
MLS Average Price, Condo	$174,083	$179,260	$184,800	3.2	$189,500	2.5
Sales to New Listings Ratio	0.58	0.54	0.57	-	0.55	-
HOUSING STARTS						
Total	7,243	4,982	5,700	14.4	5,200	-8.8
Single-detached dwellings	3,245	2,350	2,325	-1.1	2,225	-4.3
Semi-detached dwellings	348	300	375	25.0	350	-6.7
Row dwellings	2,450	1,578	1,875	18.8	1,900	1.3
Apartment Dwellings - Total	1,200	754	1,125	49.2	725	-35.6
Apartments - Condo	*1049*	*634*	*600*	-5.4	*550*	-8.3
Apartments - Rental	*146*	*59*	*125*	111.9	*150*	20.0
Others	*5*	*61*	*25*	-59.0	*25*	0.0
Average price, Single detached	$335,251	$357,549	$370,000	3.5	$382,000	3.2
RENTAL MARKET						
Vacancy Rate (October)*	3.9	3.3	3	-	2.8	-
Average Rent (2-bedroom)	$940	$920	$940	2.2	$960	2.1
ECONOMIC OVERVIEW						
Employed	459,300	463,960	490,000	5.6	501,000	2.2
Employment Growth	-1,000	4,210	19,000	-	11,000	-
Net Migration	1,400	1,200	800	-33.3	1,100	37.5

Sources: Ottawa Real Estate Board; Statistics Canada, Canada Mortgage and Housing Corporation

The Ottawa Real Estate Board is an industry association with sales representatives and brokers in the Ottawa area.

The OREB website is www.ottawarealestate.org

M.L.S. (Multiple Listings Service) is a registred certification mark owned by the Canadian Real Estate Association.

** Private rental apartments with three or more units*

F=CMHC Forecast

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